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# IRAQ RECONSTRUCTION 2009: A NEW ERA BEGINS

This year will bring change in Iraq that will fundamentally affect every aspect of the reconstruction program. This change began on January 1 when the Security Agreement and the Strategic Framework Agreement became effective, redefining the bilateral relationship between Iraq and the United States. The turn-of-the-year transfer of the International Zone to Government of Iraq (GOI) control symbolized the new era that has begun to unfold in U.S.-Iraqi relations. As this new era begins, several salient challenges confront the reconstruction program.

This section provides insight into these challenges. It begins by applying some of the hard lessons learned from the Iraq reconstruction experience to the evolving U.S. aid program of 2009. Then follow three interviews with top reconstruction leaders—Ambassador Ryan Crocker, General Raymond Odierno, and Minister of Planning Ali Ghalib Baban—shedding light on the way forward. The section also provides an update on the political and economic situations in Iraq, the status of ongoing U.S. reconstruction efforts, and a summary of SIGIR audits, inspections, and investigations accomplished this quarter.

## APPLYING *HARD LESSONS* TO IRAQ RECONSTRUCTION IN 2009

On February 2, 2009, SIGIR will release the capping report of its Lessons Learned Initiative before the Commission on Wartime Contracting in Iraq and Afghanistan. *Hard Lessons: The Iraq Reconstruction Experience* reviews in detail the U.S. reconstruction program in Iraq as it evolved since 2003, providing 13 lessons for current and future contingency relief and reconstruction operations.

Five specific insights from *Hard Lessons* apply to the U.S. reconstruction mission in Iraq today:

- **Re-evaluating Personnel and Policy.** In February 2009, Ambassador Ryan Crocker will conclude his two-year tour as the U.S. Ambassador to Iraq. The new Administration will be called on to articulate firmly Iraq reconstruction policy for 2009 and thereby avert any gaps in program direction. Promptly appointing a new Ambassador who expresses the Administration's Iraq reconstruction policies and budgetary priorities—and providing that new Ambassador with a strong and experienced staff—will foster the continuation of the progress achieved by Ambassador Crocker.
- **Shaping a New Reconstruction Management Structure.** With the emergence of a new normalcy in Iraq, the time has come for the United States to cease managing reconstruction efforts through ad hoc bureaucracies staffed by temporary workers. The Departments of State and Defense (DoS and

DoD) should re-evaluate reconstruction needs regarding personnel and resources through a new joint strategic plan, eliminating excesses and redundancies, and integrating operations to achieve unity of effort. New staffing and funding levels should reflect the growing reality that the GOI bears responsibility for virtually all new “brick and mortar” reconstruction projects. This new evolution in structure will require personnel with skill sets differing from those that were needed for the hard construction phase of the Iraq program.

- **Continuing Improvement of Civil-Military Integration.** SIGIR's oversight reports underscore the need for closer coordination among the U.S. agencies involved in Iraq reconstruction, especially DoS, DoD, and the U.S. Agency for International Development (USAID). The program made significant progress on this front over the past two years by moving the mission toward an important operational goal: a fully integrated civil-military management structure for contingency relief and reconstruction operations.

The “soft power” side of the reconstruction program now predominates, and the United States will administer such soft programs in Iraq for years to come, with USAID spearheading these efforts. Despite the prevailing soft program emphasis, the Commander's Emergency Response Program (CERP) still

provides funding for “hard” construction efforts in Iraq; U.S. Army brigades oversee the execution of these projects to meet immediate needs in their areas of operation. Better integration of CERP hard projects with USAID soft programs requires a management innovation that goes beyond good relations between the Multi-National Force-Iraq (MNF-I) Commanding General and the U.S. Ambassador.

- **Strengthening Security Management.** To conduct reconstruction operations in a difficult security environment, civilian specialists must be able to move about freely. The 2007 surge brought many much-needed improvements in security across Iraq, enabling more freedom of movement. In 2009, as the U.S. military continues to draw down in Iraq, the task of ensuring the safety of those carrying out development programs will increasingly fall to private security contractors. The new U.S.-Iraq Security Agreement (SA) limits the capacities of these contractors to operate by waiving immunity for these (and all other) contractors in Iraq. The new Ambassador must work with the USAID Mission Director and the MNF-I Commander to assess how the SA will affect the scope of reconstruction operations across Iraq in 2009, particularly with respect to security. Achieving an optimal

reconstruction tempo will require innovative integration among agencies and between the government and contractors.

- **Completing the Handoff.** The Government of Iraq is fully sovereign and increasingly capable of effectively exercising its governance powers—politically, militarily, and economically. Despite these functional improvements, Iraq’s security forces still substantially rely on the United States to assist them in a wide array of activities, including logistics, border security, equipping, and training. But this continuing assistance will rapidly draw down in 2009 as the Iraq Security Forces Fund (ISFF)—the largest U.S. account still operative in Iraq—is expended. As the United States hands over these functions, in part through the Provincial Iraqi Control process, the GOI must ensure that it is ready to fully bear its new security responsibilities and does not tacitly view the U.S. strategic overwatch posture as a safety net—militarily or economically.

2009 presents new opportunities for the United States to build on the incremental reconstruction progress achieved in Iraq over the past two years. Sustaining this progress—especially in the security sector—is a prerequisite for Iraq to move from its new normalcy to a reasonably settled state of affairs.

## LEADERSHIP LOOK-AHEAD: THREE VIEWS

### AMBASSADOR CROCKER ON RECONSTRUCTION IN 2009

Ambassador Ryan Crocker has led the U.S. Mission in Iraq since March 2007, including oversight of all U.S.-funded reconstruction and development efforts across the country. He concludes two years of service as Ambassador to Iraq in February 2009.



U.S. Ambassador to Iraq Ryan Crocker, Iraqi President Jalal Talabani, and Deputy Secretary of State John D. Negroponte at the dedication ceremony of the new U.S. Embassy in Baghdad on January 5, 2009. (DoS photo)

passage of the Security Agreement and the Strategic Framework Agreement. We are still working our way through these issues and have just started to begin implementation. There will be challenges, but [the Agreements] do redefine U.S.-Iraqi relations.

**SIGIR:** What have been the key shifts in U.S. policy during your tenure as Ambassador?

**AMB Crocker:** In fall 2007, after the testimony by General Petraeus and myself, there was a change. It was like the letting out of a long-held breath. I'm not sure if it was the hearing itself, but after that point the focus on Iraq by the Congress and others changed from a preoccupation with benchmarks. We became less minutely focused and started taking a longer, more nuanced view of Iraq. Security was improving, and there was a change in the policy environment. The second shift happened at the end of 2008 with the

**SIGIR:** What should be Iraq's top focus in 2009?

**AMB Crocker:** The stakes remain high in Iraq. What happens here [in Baghdad] affects security in Iraq, the region, and the international community. Things are tracking reasonably well. We need to ensure we are positioned to support the positive Iraqi trends while we are still drawing down our forces. We need a measured approach that ensures sustainment of the U.S. investment.

**SIGIR:** What is your view on the need for continued reconstruction and development funding in 2009?

**AMB Crocker:** In the case of reconstruction, we are transitioning away. It has to be an Iraqi response. We should continue to fund programs at the provincial and local levels. The newly elected [provincial] councils will need our support. We also need to protect the U.S. investments through funding for operations and maintenance [O&M] needs. We have to be sure there is a bridge. Governance, institutional development, and capacity programs [will be key]. Some of the most important sectors are health reform and educational reform. It is not about us building schools and hospitals anymore. I think relatively small inputs to help Iraqis on policy reforms can pay substantial dividends later. The whole focus has been, and is, shifting from major reconstruction into helping with governance, helping with capacity, helping with policy reform, and protecting investments through O&M funding.

**SIGIR:** What was your toughest moment in this job?

**AMB Crocker:** I would say the toughest moments have always been when we've taken losses—the loss of American lives. We have had

some casualties lately. They are way down now, but we still have them, and I still feel them, as we all do. We've had some very bad days in the course of my two years here. That, more than anything else, has weighed heavily on me.

**SIGIR:** What has been your most rewarding moment?

**AMB Crocker:** I'll give you two answers to that; the first is simply the continuum of where things were when I got here, and where things are as I prepare to leave. I by no means claim credit for all, much, or even any of it, but to look back again, what was happening the first few days I was here and how things look now (knock on wood), it does give me a certain sense of satisfaction that we helped the Iraqis get to a better place. [Second,] a single moment was watching the televised proceedings on the 27th of November 2008 when the vast majority of the [parliamentary] Deputies present, of all political blocks Sunnis, Shia, and Kurds, voted to ratify the two agreements [the SA and the SFA].

## GENERAL ODEIRNO LOOKS AHEAD

On September 26, 2008, General Raymond Odierno assumed command of MNF-I. He previously served in Iraq as the Commanding General of the Fourth Infantry Division (Mechanized) and then a Commanding General of the Multi-National Corps-Iraq (MNC-I).



General Odierno meets with the SIGIR.

programs. What I mean by that is, a project should be tied to a program. We are no longer only building projects, but building projects that are tied into programs that can be sustained over a long period of time.

**SIGIR:** What is your vision for the reconstruction program as the Commanding General of MNF-I?

**GEN Odierno:** Two basic principles. One, any money we spend must be tied to Iraqi spending and should be on a ratio of three to one. Three dollars of Iraqi money to every one dollar of U.S. money. Our money should never be spent by itself anymore. The second principle is that we need to stop building projects and start building

**SIGIR:** Can you give examples of each of those?

**GEN Odierno:** First, last year we got [from the Iraqis] \$270 million in Iraq-Commander's Emergency Response Program [I-CERP] funds. We spent that first and turned back [U.S.-funded] Commander's Emergency Response Program money at the end of the year because we had used I-CERP money. As for the Iraqi Security Forces, in 2008 the ratio of expenditures was 60:40, Iraqi money to U.S. money. In 2009, the ratio will be around 70:30.

**SIGIR:** On the second element, the Iraqi dollar-for-dollar matching of U.S. funds?

**GEN Odierno:** One program we have is the Civil Service Corps Program. There, we are spending both U.S. and Iraqi funds. And we are also doing some programs to develop workers' skills—such as plumbing and electricity—where they go through vocational training. Through the Iraqi First program, we are also using contracting mechanisms to give skilled Iraqis an advantage in winning contracts.

**SIGIR:** Three areas: Sons of Iraq (SOI). Where are we? Two, budget execution. How is it looking for 2008? Three, corruption. It has been a challenge all along. What are your thoughts?

**GEN Odierno:** First, the SOI program is progressing nicely. We have transferred payment of all SOI in Baghdad [to the GOI] on time. We transitioned 51,000 [in November] . . . It's gone very well. The key piece we are focused on for 2009 is getting them permanent employment. In terms of spending, 2008 budget execution is much better than it was in 2007, but they will not be at full budget execution. They are still not able to properly execute their budget, but it will be better than 2007. They will be using IFMIS [Iraq Financial Management Information System], which they realize is a good tool to use. I am still disappointed in the Ministries of Oil and Electricity and their ability to spend their money. Corruption is still a huge problem across the

board. We just arrested two more people at the Baiji oil refinery who were involved in corruption. I think the Iraqis understand they have a problem, and they are going after the problem, but it will take quite a long time to solve it.

**SIGIR:** The collapse of oil prices will fundamentally shape Iraq's capacity to continue its reconstruction in 2009. How is that going to affect your planning?

**GEN Odierno:** I am worried about their priorities. I believe one of their priorities should be the energy sector—specifically, electricity. Whether they will prioritize that way or not, I don't know. They are going to have to prioritize though, because the International Monetary Fund is going to limit how much of a deficit they can have. The drop in oil prices is going to affect the budget. The other thing I'm being told is they are not going to pull back on the raises for government employees. They are going to continue to move forward on the raises.

**SIGIR:** Any further thoughts about reconstruction in 2009?

**GEN Odierno:** I think we are doing a lot better today than we were a couple years ago. Civil-military integration has made a huge difference, from the brigade level up to the Embassy/MNF-I level. I think that integration has made a huge difference in moving forward with reconstruction. It just took us a while to learn the lessons.



## AN IRAQI PERSPECTIVE ON RECONSTRUCTION

Minister of Planning Ali Baban is responsible for developing Iraq's strategic plans for the reconstruction and development of Iraq.

**SIGIR:** What are Iraq's plans for reconstruction in 2009, and what do you expect the United States to do in conjunction with those plans?

**Minister Baban:** When we talk about reconstruction, we should talk about the budget. There is very limited foreign investment and a very limited private sector. Iraq is not like other countries. [Government] spending in this country means everything. Our capital budget is divided in two main parts—the current expenditures and the capital budget. Unfortunately, current expenditures now [encompass] about 80% of budget allocations and the remaining amount [20%] is for the capital budget. The Ministry of Planning is not satisfied about allocation of the capital budget. We think this amount of money is not sufficient for the country, especially in this period of high unemployment.

**SIGIR:** What is the unemployment rate?

**Minister Baban:** About 35-40%. The agricultural



Ali Ghalib Baban. (Iraq MOP photo)

and industrial sectors are in bad situations. But the country also needs services and, of course, security.

**SIGIR:** Of the money dedicated to capital expenditures, how is it going to be spent among the sectors?

**Minister Baban:** For many years, [the GOI] focused on the electricity and oil sectors. The reason is very clear: electricity is needed for everything. For the oil sector, it is the sector that brings in the money. We always focus on those two sectors. Because of the shortage of clean water in Iraq and suffering of the people, we allocate significant amount of money for that sector as well.

**SIGIR:** How would you describe the current condition of the electricity sector and the oil sector?

**Minister Baban:** In the oil sector, the export capacity is limited. The Ministry of Oil recently announced the first round of licensing for [foreign] oil companies. Of course, I have some fears that the current situation in [the international] oil market may affect us in some way. For

the electricity sector, there are many projects under construction . . . but we will not be able to take [advantage of] the fruits of these projects soon. In time, we will pass this crisis, but not in a short time.

**SIGIR:** Besides the budget problem, which is the biggest challenge you're facing in your planning effort?

**Minister Baban:** I describe our situation now as the moment of facing the truth. For three or four decades, we thought that Iraq could depend on oil revenue entirely. Now, we face the truth that we cannot go forward with that. We should depend on the agriculture sector, which is very rich. There is also potential for industrial projects, which could be successful. We have many sources of money for the Iraqi budget; unfortunately, the strategy of the last three decades has been to depend on oil revenue. Maybe this year we will face the consequences of the decline in oil prices. It will be a very painful situation.

**SIGIR:** What should be done about state-owned enterprises?

**Minister Baban:** I think it is very easy for the industrial sector to privatize. We can privatize it, and it would be successful and profitable. No need at all for government to intervene in those

sectors. The government can be a partner [in other areas of the economy] and some services could be mixed, like education and health. The oil sector and the electricity sector should also be privatized, in our point of view. All of those sectors could be privatized.

**SIGIR:** How would you describe the problem of corruption within the Government of Iraq?

**Minister Baban:** It is very dangerous. It hurts our imports. I think the remedy would not come from any government procedure or control; it should come from full privatization. The private sector can deal with this by itself. There is no remedy for [corruption] except privatization. I think the government has failed to defeat corruption. I suspect it will succeed in the future. But, for now, it is the usual practice everywhere in the government.

## SECURITY AGREEMENT AND STRATEGIC FRAMEWORK AGREEMENT TAKE EFFECT

The new Security Agreement, implemented on January 1, 2009, changes the way reconstruction will be carried out in Iraq. The SA (formerly referred to as the Status of Forces Agreement or SOFA) supplants UN Security Council Resolution 1511 (2003) as the legal basis for the continuing U.S. military presence in Iraq, defining the terms under which U.S. forces can operate in the country over the next three years.

The SA provides that:

- All U.S. military operations must be carried out with GOI agreement and coordinated with Iraqi authorities.
- U.S. forces cannot detain or arrest an Iraqi except in accord with the laws of Iraq. Similarly, U.S. forces cannot search an Iraqi home unless they possess a valid warrant, except in the context of combat operations.<sup>1</sup>
- U.S. forces personnel who commit felonies outside U.S. bases while off-duty are subject to prosecution under the laws of Iraq.
- All U.S. military forces shall depart from Iraq's cities, villages, and localities no later than June 30, 2009. (This provision appears to be subject to some interpretive discretion as evidenced by recent statements that U.S. forces involved in training and mentoring missions will remain in urban security stations to support the Iraqi Security Forces beyond the June 30 deadline.)<sup>2</sup>

- All U.S. military forces shall depart Iraq by December 31, 2011, unless the GOI requests their earlier departure or their continued presence beyond that date.

The SA provides that "Iraq shall have the primary right to exercise jurisdiction over United States contractors and United States contractor employees."<sup>3</sup> A year ago, SIGIR reported that such a provision could reduce the U.S. contractor presence in Iraq. The waiver of the immunities that contractors enjoyed in Iraq since 2003 certainly will lead some to view the risks of continuing operations in Iraq as too high, and they will depart, but no "contractor exodus" appears imminent. Preliminary indications in January point to little change in the size of the U.S. contractor presence. This may be due, in part, to the fact that Iraq has yet to implement the rules effectuating the SA's immunity waiver.

Iraq's Minister of Interior has established a committee to determine how the SA will operate in practice. This committee is developing rules to govern the SA's application to, among other things, the following: the licensing of security contractors; the registration of firearms, pilots, aircraft, and vehicles; the imposition of customs duties, tariffs, and taxes; and the procedures for U.S. government and contractor personnel

transiting Iraq. Until the Ministry of Interior adopts the new rules, “no legal action will be taken against U.S. Government affiliated contractor personnel” on alleged misconduct

falling within these categories.<sup>4</sup> Of note, Iraq will hold a national referendum on the SA in mid-2009.

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## 2009: A YEAR OF NEW ELECTIONS

The coming year will bring new elections that will significantly change the face of Iraqi power.

### Provincial Elections

Iraq scheduled provincial elections for January 31, 2009, in 14 of Iraq’s 18 provinces. Residents of Kurdistan (the provinces of Erbil, Sulaymaniyah, and Dahuk) will vote later this spring. Tameem will hold provincial elections later in 2009 because of a highly volatile situation arising from tensions among Kurds, Arabs, and Turkomen living in and around the provincial capital of Kirkuk.

These long-pending and important provincial elections should redress many of the political imbalances caused by the Sunni boycott of the 2005 provincial elections. The elections previously had been scheduled for September 2006, but it took the passage of the new Provincial Elections Law in September 2008 to force them finally to occur.

### Preparing for Provincial Elections

Logistical preparations for the provincial elections unfolded relatively smoothly. Ballots and voting machines were ordered on time, candidate registration occurred without significant difficulty, and voter registration proceeded in an

orderly fashion.<sup>5</sup>

Approximately 14,500 candidates vied for about 560 seats among the 14 provinces, with voting scheduled to occur at 6,066 polling centers.<sup>6</sup> DoS and the United Nations provided funding to train 20,000 Iraqi poll watchers. A small group of international observers was to monitor the elections.

### The Effects of Provincial Elections

The new elections will change the operating environment in Iraq in several ways. First and foremost, by producing new democratically elected Provincial Councils, the 2008 Provincial Powers Law will come into full effect. This law permits councils to influence the selection and retention of ministerial directors general who operate in the provinces on behalf of Iraq’s ministries. The councils will also select provincial governors and will have a say in the selection of police chiefs in their provinces. These important governance changes, foreshadowed by Coalition Provisional Authority orders of five years ago, finally will effect a meaningful decentralization of political power from Baghdad, marking a firm break from remaining vestiges of Saddamist centralization.

## More Elections

Iraq's political future will be further shaped by other elections scheduled for 2009:

- In December 2009 (or early 2010), Iraq will conduct its first parliamentary elections since December 2005. This will be the first real electoral test for the Maliki government.
- Municipal and county elections across Iraq will be held by the end of July.
- A national referendum on the new Security Agreement will take place in July.

In previous reports, SIGIR noted the significance of the Regions Law. Pursuant to its provisions, any province or group of provinces can form a federal region after a vote in favor of regionalization via referendum. To date, Kurdistan is the only constitutionally recognized region in Iraq. This quarter, supporters of regionalization in the Shia province of Basrah attempted to collect the requisite number of signatures need to hold a referendum on regionalization, but the effort failed.

## SECURITY

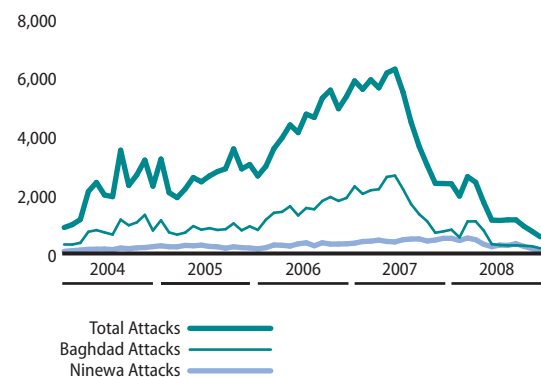
Although significant challenges remain, this quarter saw the United States and the GOI make further progress toward establishing a more stable Iraq.

### The Post-Surge Environment

As Figure 1.1 reveals, attack levels in 2008 dropped to their lowest levels since 2003, with fewer insurgent attacks in November than in any month since the U.S. invasion.<sup>7</sup> Notwithstanding this positive trend, the United States will maintain a relatively robust force in Iraq for 2009 to ensure that the Iraqis have “the right capability to handle the insurgent activity when we leave.”<sup>8</sup>

FIGURE 1.1

#### SECURITY INCIDENTS



Source: OSD, response to SIGIR data call, 10/6/2008; CENTCOM, response to SIGIR data call, 1/10/2009.

## Integration of the Sons of Iraq into the Iraqi Security Forces

As additional U.S. troops surged to Baghdad and Anbar in 2007, U.S. commanders began to hire former Sunni insurgents, charging them to help keep the peace in their communities. Designated the Sons of Iraq (SOI), they numbered 99,000 by 2008; most were paid with U.S. CERP funds. In mid-2008, the MNF-I began transferring responsibility for SOIs to Iraqi control.<sup>9</sup> As of January 1, 2009, the GOI managed approximately 76% of all SOIs. Concerns remain regarding the ability and will of the Shia-led GOI to absorb or pension off the SOI.

## Provincial Iraqi Control—Babylon and Wassit

This quarter, 2 more of Iraq's 18 provinces transitioned to Provincial Iraqi Control, leaving just 5 left to PIC. On October 23, 2008, Babylon became the 12<sup>th</sup> province to transition to PIC,

and Wassit followed 6 days later. Current U.S. plans call for Salah Al-Din and Tameem provinces to PIC in early 2009.<sup>10</sup>

## Coalition Partners Pull Back

Since 2003, more than 40 countries deployed military personnel to Iraq in a combat, reconstruction, or training capacity. Most have since withdrawn their forces or civilian personnel. Poland recently announced its intention to withdraw all its troops from Iraq. And El Salvador removed its last military units from Kut on January 22, 2009, reducing the number of Coalition partners still with military forces in Iraq to four.<sup>11</sup>

In January 2009, the United Kingdom turned over its base near the Basrah airport to the ISF. By summer 2009, the Coalition PRTs in Basrah and Erbil will have transitioned to U.S. control as the UK and South Korea withdraw reconstruction personnel.

## U.S. RECONSTRUCTION UPDATE

The Congress has appropriated \$51.01 billion for reconstruction efforts in Iraq and, as of January 1, 2009, the U.S. had obligated \$41.42 billion and expended \$36.58 billion.<sup>12</sup> These funds flow through 33 separate accounts, but 4 major funds predominate: the Iraq Relief and Reconstruction Fund (IRRF), the Iraq Security Forces Fund (ISFF), the Economic Support Fund (ESF), and CERP.

### Amounts Remaining for Obligation

On September 30, 2008, the authority for obligating any remaining funds under the IRRF 2 expired, although more than 40 large IRRF 2

projects remain ongoing. In 2009, \$3.37 billion of ISFF funds remain to be obligated.<sup>13</sup> Of the three major U.S. funds, \$3.90 billion remains for obligation to new contracts. For an overview of balances that remain for obligation, see Figure 1.2.

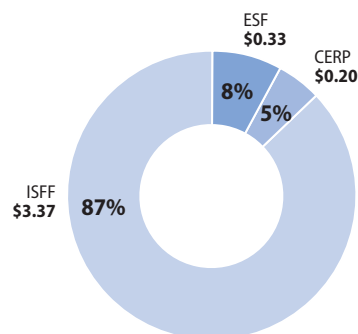
### Oil and Electricity

Iraq's crude oil production this quarter averaged 2.37 million barrels per day (MBPD), a 4% drop from last quarter.<sup>14</sup> Iraq oil exports increased slightly this quarter, averaging 1.79 million MBPD,<sup>15</sup> but a decline in oil prices depressed the economic impact of this export increase. See Section 2 for more details.

Electricity generation reached a new record this quarter, averaging 4,997 megawatts (MW) per day.<sup>16</sup> The Ministry of Electricity also progressed on several large new power generation projects, including a \$3 billion purchase of GE generators.<sup>17</sup> SIGIR continues to underscore the importance of properly maintaining U.S.-funded electricity projects.<sup>18</sup>

FIGURE 1.2

**UNOBLIGATED MAJOR U.S. FUNDS**  
\$ Billions, \$3.90 Total



**Note:** Numbers affected by rounding. Figures do not include funds from prior to FY 2007 that have expired.

**Sources:** ISFF: OSD, response to SIGIR data call, 1/12/2009. ESF: DoS, response to SIGIR data call, 10/14/2007; USAID, response to SIGIR data call, 1/8/2009; ITAO, responses to SIGIR data call, 10/2/2008, 10/14/2008, and 1/15/2009; GRD, response to SIGIR data call 1/5/2009; ITAO, *Essential Indicators Report*, 1/1/2009. CERP: OSD, response to SIGIR data call, 1/12/2009; P.L. 109-234, P.L. 109-289, P.L. 110-28, P.L. 110-92, P.L. 110-116, P.L. 110-137, P.L. 110-161, P.L. 110-252.

## ECONOMY AND BUDGET

The vast majority of Iraq's government revenue is derived from the export of oil. Precipitous dips in the world price of oil can profoundly affect the GOI's budget. See Figure 1.3.

### Impact of Oil Price Decline

In July 2008, world oil prices exceeded \$134 per barrel, and Iraq was enjoying an oil revenue windfall.<sup>19</sup> But during the latter half of 2008, a dramatic decline in oil prices forced the GOI to revise downward its projected 2009 budget several times. In January 2009, the Council of Ministers submitted a \$59.5 billion draft budget, assuming a \$50 price per barrel.<sup>20</sup>

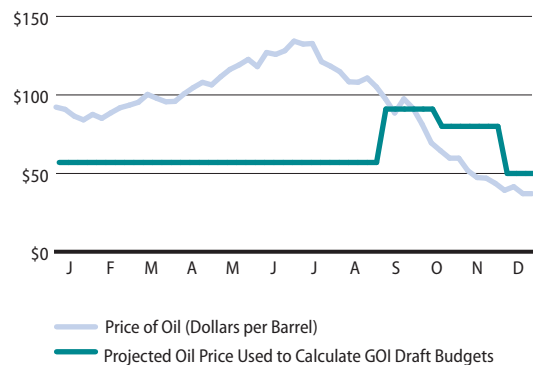
The GOI budget revisions reduced funding for planned reconstruction in Iraq. Deputy Prime Minister Salih recently observed that current trends in oil prices will continue to cause severe financial problems for the GOI, impairing the capacity of its reconstruction program.<sup>21</sup>

Concerns continue to increase regarding Iraq's oil infrastructure, especially in the oil-rich south. Years of poor maintenance threaten two underwater oil pipelines that transport crude oil to the Al Basrah Offshore Terminal. Without significant Iraqi investment to repair and upgrade these pipelines, they could fail, dramatically reducing exports in 2009 and reducing Iraq's national income.

Operational and administrative costs will consume about 80% of Iraq's 2009 budget, up from 74% of the 2008 budget. This increase stems primarily from higher government

FIGURE 1.3

### GOI PROJECTED PRICE OF OIL VS. ACTUAL PRICE OF OIL, PER BARREL IN 2008



Source: U.S. Treasury, response to SIGIR data call, 12/31/2008; IMF, "IMF Executive Board Completes First Review of Iraq's Stand-By Arrangement," Press Release No. 08/199, 9/3/2008; U.S. Treasury, response to SIGIR data call, 1/4/2009; U.S. Energy Information Administration, *Weekly Iraq Kirkuk Netback Price at U.S. Gulf*, 12/31/2008, [www.eia.doe.gov](http://www.eia.doe.gov), accessed 1/5/2009.

salaries, which comprise approximately 35% of the GOI's budget. Given the budgetary weight toward governmental costs, the GOI will spend only 20% of its 2009 budget on capital improvements.<sup>22</sup>

### International Debt and Sanctions

On December 17, 2008, the Paris Club, an international forum of 19 wealthy nations that negotiate the debt repayment terms of debtor nations, reduced the GOI's international debt for the third time in five years. Iraq originally owed the Paris Club creditors nearly \$50 billion. Three



rounds of reductions have brought that figure down to \$7.6 billion, a debt-forgiveness rate of more than 80%.<sup>23</sup>

In December 2008, Iraq asked for and the UN Security Council granted an extension of the legal protections that have shielded Iraq from international claims lodged against it because of

actions taken by Saddam's regime. Most of these claims come from Kuwait, as a result of Saddam's looting of that emirate after his 1990 invasion. The United States supported Iraq's request for the renewal of these protections because a flood of new claims could drain the country's treasury, threatening the reconstruction effort.<sup>24</sup>

## ANTICORRUPTION

As the Minister of Planning told SIGIR this quarter, corruption is worse now in Iraq than it has been since the 2003 invasion, explaining that it afflicts the government at every level. Although the violent insurgency was largely suppressed by the surge, a second insurgency of corrupt officials continues to harm the country. This quarter saw several developments in Iraqi efforts to battle this second insurgency, including:

- the removal of six Iraqi inspectors general (IGs) for their failure to perform
- the Joint Anticorruption Council's continuing effort to forge a sustainable anticorruption strategy for Iraq
- the international community's increasing engagement with the GOI's anticorruption institutions
- the arrival of a new U.S. Anticorruption Coordinator in Baghdad

### Iraq's Anticorruption Institutions

Iraq's anticorruption system comprises three agencies: the ministry Inspectors General (IGs); the Board of Supreme Audit (BSA); and the Commission on Integrity (CoI).

The nominally independent IG system operates offices in all of Iraq's ministries or quasi-ministerial entities. The IGs are supposed to function as the first line of defense against corruption. Created by the Coalition Provisional Authority in spring 2004, the IG system mirrors the U.S. federal IG structure. Part of the challenge of inculcating this new system stems from the fact that no other nation in the Middle East has IGs. Performance has also been a problem. Recently, six IGs were removed for their failure to carry out their missions, and two more retired, leaving eight vacancies.<sup>25</sup> As of early January 2009, several vacancies had been filled.

Created by the British over 80 years ago, the BSA is Iraq's chief audit agency. Led by Dr. Abdul Basit, the BSA produces the most reliable work of any of Iraq's anticorruption entities. SIGIR met twice with Dr. Basit this quarter, and he reiterated concerns about corruption in Iraq, expressing particular worry about the weak IG system.

The CoI, a rough analogue to the FBI, was also created by the CPA in 2004 and given a nationwide mandate to investigate allegations of public corruption. However, the CoI does not have arrest authority and must work through investigative judges to bring a suspect to the bar. SIGIR met with Judge Raheem, the Commissioner of the CoI, this quarter. Now in office for about a year, he has yet to be placed before the Council of Representatives for confirmation, leaving him subject to political pressure. Developments in early 2009, however, suggest that the CoI may be securing a valuable new ally in Sunni Vice President Tareq al-Hashemi, who publically called on all GOI institutions to cooperate with the CoI in aggressively combating public corruption, which he described as a threat to the reconstruction of Iraq.<sup>26</sup>

## Reforming Anticorruption Laws

This quarter, the GOI's Joint Anti-Corruption Council's (JACC) commenced work on two new initiatives. First, it is leading a new effort to consolidate and update the provisions of Iraq's penal and criminal procedure codes regarding

corrupt activities. Second, the JACC is drafting an anticorruption strategy that will articulate a three- to five-year plan for fighting corruption. These initiatives comply with requirements set forth by the UN Convention Against Corruption, which Iraq ratified in spring 2008.

## U.S. Anticorruption Efforts

In late December 2008, Ambassador Joseph Stafford, an Arabist with experience in the Middle East, arrived in Iraq to take the post of the Embassy's Anticorruption Coordinator. Ambassador Stafford is the third head of the Embassy's Anticorruption Coordination Office since its creation in early 2008, and the tenth official in charge of U.S. anticorruption efforts in Iraq since 2003—an average leadership tenure of about six months.<sup>27</sup>

## International Efforts To Enhance Transparency and Accountability

The World Bank announced that its Public Financial Management Reform Program for 2009 will implement a variety of initiatives in Iraq aimed at improving the transparency of the country's public finances. The program will help the GOI develop a comprehensive budget manual and will attempt to modernize Iraq's archaic accounting procedures. Meanwhile, the UN Development Programme continues to support training activities for the three anticorruption agencies.

## SIGIR OVERSIGHT

SIGIR maintains the largest oversight presence in Iraq. With more than 75 years of collective in-country experience, SIGIR's auditors, inspectors, and investigators possess a proven track record of preventing, detecting, and deterring waste, fraud, and abuse in Iraq reconstruction.

### Audits

SIGIR's Audit Directorate issued six reports this quarter, bringing to 135 the total number of audit reports issued since 2004.

SIGIR's audits this quarter:

- reviewed the \$722.3 million contract awarded in January 2004 to KBR for oil infrastructure work in southern Iraq, finding that, although much was accomplished under the contract, completing the various task orders took much longer than planned, and they were frequently modified, dramatically increasing costs. SIGIR also found a lack of continuity of government oversight personnel and weaknesses in KBR's management control systems.
- examined DoD's program to restart state-owned enterprises in Iraq. SIGIR auditors noted that jobs have been created, but could not verify the number because of problems in the methodology. SIGIR identified several improvements to internal controls that could reduce vulnerabilities to fraud.
- reported on private security contracts awarded to Aegis Defence Services worth nearly \$700 million. SIGIR found a well-administered contract-awards process, effective government oversight of Aegis, and satisfactory-to-outstanding performance of the contract's requirements. The report recommended ways to improve contract file information.
- analyzed the DoS Quick Response Fund, which was created in 2007 to provide the PRTs with a flexible funding mechanism. SIGIR concluded that, although sound processes have been developed for awarding grants, more work was needed to measure outcomes. SIGIR also found that 62 cents of every QRF dollar may be spent to pay overhead costs of one of USAID's large implementing partners.
- examined U.S. funding for Iraqi Security Forces, focusing on the willingness and capacity of the GOI to assume an ever-increasing share of its security. SIGIR found that the GOI's funding for its security forces increased over the last two years and will outpace U.S. contributions going forward. SIGIR also found that the Multi-National Security Transition Command-Iraq needs to improve its internal documentation of cost-sharing negotiations and arrangements.
- issued a follow-up review of the PRTs' performance measurement process. SIGIR found that the DoS Office of Provincial Affairs (OPA) had developed a proper performance assessment system for evaluating provincial capabilities. But OPA has not consistently required the PRTs to submit work plans identifying how

they will address specific weaknesses identified by the assessment system. During the course of this review, OPA notably improved its procedures for preparing, submitting, and reviewing work plans.

SIGIR broadened its forensic audit efforts this quarter, initiating a special project to review DoD data on appropriations, obligations, and expenditures data from Iraq relief and reconstruction activities for fiscal years 2003-2008. This project looks for fraud by combining automated transaction data review with data-mining techniques to examine expenditure patterns for Iraq reconstruction activities.

## Inspections

SIGIR's Inspections Directorate assessed the status of 10 projects at 8 reconstruction sites this quarter. Since 2005, SIGIR has issued a total of 141 project assessments. This quarter's inspections included reviews of the Haditha General Hospital; Heet and Haditha Primary Healthcare Centers; the Al-Iqitadar and Al-Shurhabil Schools; the Anbar Rule of Law/Judicial Complex; Ramadi's 132-kilovolt Substation; and the Baghdad Police College.

SIGIR inspectors found a number of positive signs this quarter. For example, U.S. reconstruction managers continue to seek more input from GOI partners, and more projects are meeting their intended goals. Particularly notable were the effective quality control and quality assurance programs ongoing at the Anbar Rule of Law/Judicial Complex project in Ramadi. Effective

monitoring of the project's progress prevented minor problems from becoming major ones.

## Investigations

This quarter, two defendants, apprehended as a result of SIGIR investigations, were convicted after a two-month trial in New Jersey federal district court. They will be sentenced this spring. Nine defendants from other SIGIR cases await sentencing.

Four military officers serving under a Coalition partner were arrested this quarter after a SIGIR investigation into contract award processes associated with CERP-funded projects revealed a fraudulent scheme. Further, SIGIR and Iraq's Ministry of the Interior conducted a joint investigation that resulted in the issuance of an arrest warrant by the Baghdad Central Criminal Court of Iraq for an Iraqi citizen who stole funds from a U.S. Army Civil Affairs Brigade.

SIGIR investigators also discovered that a retired U.S. Army colonel, who had been previously debarred from DoD contracting as the result of a cash smuggling conviction, was in Iraq representing an Iraqi contractor with \$67 million in DoD reconstruction contracts. After SIGIR reported these facts, the former Army colonel was terminated by the Iraqi contractor. Finally, a SIGIR investigation prompted the U.S. Army Corps of Engineers to issue demand letters for the return of \$11.3 million to three U.S. contractors involved in the reconstruction of Iraq's electricity grid.

## THE HUMAN TOLL

On November 29, 2008, 2 Iraqis were killed and 15 injured when a rocket hit near the UN compound in the International Zone. No other significant harm was inflicted by indirect fire in the International Zone this quarter.

The U.S. mission moved to the New Embassy Compound this quarter, providing appreciably more protection to those working in the U.S. Mission than did the Presidential Palace.

### Contractors

The Department of Labor (DoL) reported 35 new death claims for civilian contractors working on U.S.-funded projects in Iraq this quarter and 538 contractors who sustained injuries. Since 2003, 1,299 death claims have been filed with DoL.

### U.S. Civilians

The State Department reported that two U.S. civilians died in Iraq this quarter—one from a vehicular accident and the other from health problems. Since March 2003, 278 U.S. civilians have died in Iraq.

### Journalists

For the first time since March 2003, no journalists were reported killed in Iraq this quarter. Eleven journalists were killed in Iraq in 2008—a sharp decline from the 32 killed in 2007.<sup>28</sup> Nevertheless, for the sixth year in a row, Iraq was the deadliest country in the world for media personnel.

### Internally Displaced Persons and Refugees

In the third quarter of 2008, approximately 1,000 Christian families fled Mosul because of the deteriorating security situation. This quarter, the UN reported that nearly half of these families may have returned, after the GOI deployed additional forces to provide security for the population.<sup>29</sup>

U.S. officials reported that a record 13,823 Iraqi refugees were resettled in the United States from October 1, 2007, to October 1, 2008—the most in any year since 2003. An additional 3,004 refugees resettled in the United States from October 1, 2008, to December 24, 2008.<sup>30</sup>

In late December 2008, the GOI held its first conference aimed specifically at luring home Iraqi professionals who fled abroad because of the security situation. Of the 240 expatriates invited to this conference, approximately 200 returned to Iraq, many for the first time in several years. The largest group of participants comprised medical doctors, followed by engineers and scientists.

The attendees recommended that the GOI create a database of skilled Iraqi expatriates who are willing to work with the government to rebuild Iraq.<sup>31</sup> Although this conference represented a positive development, Iraq continues to suffer from a profound shortage of doctors and other medical professionals. According to one source, Iraq needs 100,000 physicians to serve its population of 27.5 million people, but has only approximately 15,500.<sup>32</sup>